

IRS News Release

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IRS Reminds Farmers How to Report Market Gain When Using Commodity Credit Corporation (CCC) Certificates to Facilitate Repayment of CCC Loans

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WASHINGTON – Farmers who pledge part or all of their production to secure a CCC loan may not be properly reporting market gain when they use CCC certificates in connection with paying off their loans, the Internal Revenue Service said today.

Farmers who pledge part or all of their production to secure a CCC loan can make a special election to treat the loan proceeds as income in the year received and obtain a basis in the commodity for the amount reported as income. A farmer can make the special election by reporting the CCC loan proceeds as income on line 7a of Schedule F for the year the loan is received and attaching a statement to the return showing the details of the CCC loan. Approval from the IRS is not needed to adopt this method, but once a CCC loan is reported as income in the year received, all CCC loans, in that year and in later years, must be reported in the same manner until a change in accounting method is properly filed with the IRS.

Under the CCC nonrecourse marketing assistance loan program, the repayment amount for a loan secured by the pledge of an eligible commodity is generally based on the lower of the loan rate or the prevailing world market price for the commodity on the date of repayment. If the loan is repaid when the world price is lower, the difference between that lower repayment amount and the original loan amount is market gain. A farmer can use CCC certificates to facilitate repayment of a CCC loan. If a farmer uses cash instead of certificates, the farmer will receive a Form CCC-1099-G Information Return showing the market gain realized. However, if a farmer uses CCC certificates to facilitate repayment of a CCC loan, the farmer will not receive any information return. Regardless of whether a CCC-1099-G is received, the market gain is either reported as income or as an adjustment to the basis of the commodity, depending on whether the special election has been made.

If a farmer made the special election to treat CCC loans as income when received, the farmer accounts for market gain by making an adjustment to basis. The farmer's basis in the commodity will be equal to the amount of loan proceeds previously reported as income minus the amount of any market gain. A farmer who made the special election should report market gain as an *Agricultural program payment* on line 6a of Schedule F, but not as a taxable amount on line 6b. A farmer reports market gain in the same way even if the farmer used CCC certificates to facilitate repayment of the loan and does not receive Form CCC-1099-G with respect to the transaction.

Note that if a farmer did not make the special election and the CCC loan was not included in income as noted above, the market gain is reported on line 6a **and** as a taxable amount on line 6b of Schedule F. This is the case even if the farmer used CCC certificates to facilitate repayment of the loan and does not receive a Form CCC-1099-G.

Farmers who do not make the special election to treat CCC loans as income when received should report market gain as income, and those farmers who do make the special election should account for market gain as an adjustment to basis, even though Forms CCC-1099-G may not be received.

Farmers who have already filed their 2003 Form 1040 individual return and failed to report market gain properly should file an Amended Form 1040 by April 15th to reflect the proper tax treatment.

IRS Publication 225, "Farmer's Tax Guide," has more information on how farm income should be reported and the tax consequences of CCC transactions. Publication 225 and tax forms are available through the IRS Web site at IRS.gov, or by calling 1-800-TAX-FORM (1-800-829-3676). Taxpayers can also contact the IRS toll-free at 1-800-829-1040 for more information.